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GOVERNMENT POLICY

Required Report - public distribution

Date: 10/5/2009

GAIN Report Number: SN9009

Singapore

EXPORTER GUIDE ANNUAL

Singapore's Exporter Guide 2009

Approved By:

David W. Cottrell

Prepared By:

Bernard Kong

Report Highlights:

The Singapore economy showed diametrically opposite economic performances in the two halves of calendar year 2008. Subsequent to the robust economic growth in the first half of 2008, the economy suddenly turned downwards initially to a 0.4 percent growth in the third quarter of 2008 and subsequently worsened to a 5.6 percent decline in the last quarter of the same year. The downward trend continued in the first half of 2009 but the contraction appear to be moderating in subsequent months following the first quarter. The Singapore government has projected a decline of between 5 to 6 percent for the entire 2009.

Post:
Singapore

Commodities:

Executive Summary:

Author Defined:

SECTION I. MARKET OVERVIEW

Economic Situation

Following a robust 12.1 percent growth in GDP in 2007, the Singapore economy continued its growth momentum for the first half of CY 2008, posting 13.3 percent growth in the first quarter and 6.2 percent growth in the second quarter. The economic picture changed dramatically in the second half of 2008 as the external demand in the major world markets slowed considerably as a consequence of the world wide financial turmoil. The Singapore economy began its downward trend in the third quarter of 2008 by registering a 0.4 percent growth and subsequently worsened with a minus 5.6 percent decline in the fourth quarter of the same year. Like the rest of the world, the economy of Singapore slowed down considerably to a 2.3 percent growth for the full calendar year 2008.

The manufacturing sector experienced the largest contraction by returning a decline of 11 percent for each of the last two quarters of 2008. The services sector similarly contracted by 1.3 percent in the last quarter of 2008 compared to the 5.5 percent growth in the third quarter. Job creation fell to 21,000 in the fourth quarter compared to 55,700 in the previous quarter. The full year unemployment rate in 2008 rose to 2.3 percent up from 2.1 percent in 2007.

Singapore's global imports of agricultural, fish and forestry products grew by 19 percent to US\$9.06 billion in 2008 reflecting the buoyant demand in the first half of 2008 and the more robust re-export trade to the markets in the Asia Pacific region. The impact of the economic recession in the major export markets were only felt in the last quarter of 2008.

From initial official figures published, the Singapore economy continued its downward decline in the first half of 2009, registering a 9.1 percent decrease in the first quarter and improving to a 3.3 percent decline in the second quarter of the same year. Preliminary Singapore government forecasts that the Singapore economy will show an improvement with a smaller decline in growth in the second half of 2009.

With one of the highest per capita incomes in Asia, Singapore is the most developed economy within the ASEAN region. The fact that Singapore strategically lies on the cross roads of major air and sea routes within the Asia Pacific region supports its traditional role of a major transshipment center for much of the Southeast Asian region and the Indian subcontinent. The above factors also contribute to Singapore's position as a regional food showcase and headquarters for international food and agricultural related companies.

The Market for Consumer Oriented Foods

As the Singapore population of 4.8 million is almost entirely dependent on imported foods, it is not surprising that the total value of imported consumer oriented foods exceeded US\$4.6 billion in CY2008. An additional US\$899 million of fish and seafood products were imported in CY 2008, an increase of 12 percent over the previous year.

Not all the imported foods are consumed locally. It is estimated that routinely, about 25% of food imports are re-exported to neighboring countries. Major product categories include dairy products, frozen poultry and poultry parts, fresh fruit and vegetables, red meats, alcoholic and non-alcoholic beverages, snack foods and other consumer-oriented products. Growth rate for the consumer oriented foods category averaged about 10 percent per annum over the calendar period 2006-2008. The U.S. market share of the consumer oriented foods category in the same period averaged between 8-9 percent.

Demography and Socio-economic impact

Like most developed and highly urbanized economies, Singapore's indigenous population growth rates have been falling rapidly in the last decade. However the number of Singapore residents increased at the annual rate of 5.5 percent in 2008 primarily due to the growing influx in the number of foreigners taking up employment in the country in recent years. This factor alone augmented the slow natural growth (estimated at less than one percent per annum) in the number of Singapore citizens. The total population of 4.84 million comprised of 3.64 million citizens and permanent residents and just over 1 million foreign workers (and their dependents) on employment passes, work permits or long term social visit passes.

The proportion of elderly residents has increased rapidly over the last ten years. Residents aged 65 years and above comprised about 8 percent of Singapore's resident population. This proportion is expected to increase to over 20 percent by 2050. On the flipside, the youth population (aged 14 years and below) as a percentage of the population declined from 23 percent in 1990 to 19 percent in 2007. On the positive side,

the mean years of schooling among resident non students aged 25-39 is 9.4 years. Eighty seven percent of the population in this same group has Secondary or Higher Qualification. The number of singles has also risen in the country with the fall in the number of persons getting married over the last ten years. The age at which both grooms and brides get married have also risen.

Summary of socio-economic impact of the changing demographic structure.

- 1) Slower growth rates in domestic demand.
- 2) Growing personal disposal income due to better-educated workforce.
- 3) Smaller household sizes due to falling marriage and birth rates.
- 4) Demand for food products for the mature age groups growing.
- 5) Growth and diversity in consumer tastes with the greater increase in the number of highly educated and more traveled Singaporeans. The rising numbers of visitor arrivals and foreign workers in the country have also contributed to the wider variety of consumer tastes.
- 6) With the rise in the number of working women and newly arrived single executives, there is a corresponding growth in demand for convenience foods and ready to cook prepared meals.

Advantages and Challenges for U.S. Suppliers

Advantages	Challenges
Fast growing incomes and highly educated population	High costs of entry into major supermarket chains
Increasing preference for higher quality products	Lower prices of competing products from other countries
Proliferation of western family-style restaurants and fast food chains	Inadequate knowledge on use of U.S. products
Large numbers of resident expatriate population familiar with	High promotional and advertising costs for introducing new products

western type foods	
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SECTION II. EXPORTER BUSINESS TIPS

Local Business Practices and Custom

In the arena of international trade, Singapore business practices tend to follow those in the more developed and highly urbanized economies. The country's laws are patterned after the British legal system. There is considerable reliance on international trading practices and contracts. Letters of credit are normally used for first time transactions and only after a long history of business relationship is established, the terms of payment may be mutually adjusted to an open trading account with payment terms of up to two months. It is not uncommon for buyers to request for samples from first time suppliers. In some cases, U.S. exporters may request that buyers pay for airfreight charges and handling costs of samples if they become prohibitive.

U.S. exporters who are exporting for the first time to the Singapore market would be advised to consider making use of local distributors or at least a local representative to help them guide through the requirements of the Singapore Food regulations and local trading practices.

However, financial and credit arrangements in the domestic economy are very different. With few exceptions, supermarket chains, restaurants and other retail customers expect suppliers to provide credit terms of up to ninety days. There is also an implicit understanding to accept the return of damaged and unsold goods. On the other hand, some small retailers like Mom and Pop stores pay cash on delivery, as their order sizes are very small. Hence, if U.S. exporters decide to carry out their own local distribution, they would have to expect to meet the usual credit terms demanded by local supermarket chains.

General Consumer Tastes and Preferences

With rising consumer incomes, Singaporeans are prepared to pay for higher quality food products or products that will provide savings in labor and time. Hence, on the supermarket shelves we tend to see an increasing number of prepared and convenience foods. Diced vegetables and seasoned portion-control meats and poultry are in increasing demand as both spouses work.

As almost all Singapore households are of Asian origin, imported foods that are to be used in local cooking have to be able to lend themselves to Asian cuisines. Asian dishes

tend to be stir fried, prepared in curries or marinated in chili sauces.

Food Standards and Regulations

Singapore food laws are delineated in the Food Act and all packaged foods sold in retail outlets have to comply with the allowable ingredients and preservatives listed in the abovementioned Act (see the latest FAIRS Report in the USDA website, www.fas.usda.gov).

Singapore has a very open import regime and all foods, with the exception of alcoholic beverages and tobacco products are imported duty free. There are practically no non-tariff restrictions since there is very little local production and the current government policy is to source food products from all over the world. Customs clearance of imported food products is carried out electronically and the process is completed in less than 48 hours.

Import and Inspection Procedures

Export health certification is required for the import of meat, poultry products and shellfish products. In most import cases, random inspection and laboratory analysis of meat and poultry products are carried out.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Consumer-oriented Foods and Beverages & Edible Fishery Products

Singapore, which has the second highest per capita income in Asia, is one of the most open economies in the world with no tariffs on all food products except on alcoholic beverages. As a result, a wide range of food products from all over the world can be found on supermarket shelves in this compact island nation of 4.8 million people.

The major suppliers of fresh temperate climatic fruit to Singapore are the United States, Australia, New Zealand, European Union, China, South Africa, Brazil and Chile. Suppliers of tropical fruit are neighboring countries of Malaysia, Indonesia and Thailand. Singapore households buy mostly fresh leafy green vegetables from Malaysia, Indonesia, Thailand and China. On the other hand, most of the imported temperate vegetables originating from Australia, New Zealand, European Union and the United States are supplied to restaurants and larger supermarket stores.

Singapore imports all the meats and poultry it consumes from all over the world. Poultry and pork are the main meat items consumed in Singapore. Freshly slaughtered chicken

is obtained by importing live poultry from Malaysia for slaughter in local abattoirs. About half of the chicken requirements are fulfilled through the imports of frozen chicken and chicken parts from Brazil, United States, China and the European Union.

Since April 1999, the only source of imported live pigs (about 250,000 head annually) for slaughter comes from Indonesia. Most of Singapore's pork requirements are fulfilled through the import of chilled pork from Australia and frozen pork from European Union and the United States. Beef, while not as widely consumed as chicken, is sold principally in the supermarkets. Major suppliers of beef include Australia, New Zealand, Argentina and China. The United States is allowed to supply only boneless beef from cattle less than 30 months of age because of BSE concerns.

In the seafood category, Singaporeans consume mostly fresh and frozen finfish caught and sold by neighboring countries, i.e. Malaysia, Indonesia and Burma. Other major suppliers include Taiwan and Japan, India, Australia, Vietnam and China. In 2008, a total value of US\$899 million of seafood was imported from worldwide sources.

Singaporeans are very fond of fresh seafood; especially fin fish, crabs, lobsters and clams. While most of the finfish are purchased in the wet markets for home consumption, Singapore consumers generally go to restaurants for the consumption of crabs and lobsters.

Food Retail Sector

It is estimated that about 60 percent of the food retail sales of US\$4 billion take place in supermarkets, hyper-marts and modern mini marts, while the rest are sold in convenience shops, traditional provision stores (Mom & Pop stores), petrol stations and wet market stalls. Traditionally Singaporeans shop for their fresh produce, meats and fish in wet market stalls. Over the last decade however, more and more household are turning to supermarkets for their fresh produce, meats and fish requirements. Generally, importers who represent foreign brands will be responsible for the market development of the brands, advertising and promotion and increasing distribution reach to all retailers.

However, in recent years, some of the large supermarket chains and several up market retailers import western-type products directly for their own outlets. Products directly imported would include frozen prepared meals, juices, jams, confectionery, biscuits, salad dressings, pre-packed deli meats and fresh temperate fruit. Products procured from local importers would include products from the Asian region, dry groceries, tropical fruit, frozen chicken and chicken parts, frozen beef, local sauces and ethnic foods.

Two major supermarket chains dominate the Singapore retail industry, Dairy Farm and

NTUC Fairprice supermarket chains. The former targets principally the middle and higher income groups while the latter caters to the mass-market group.

The largest supermarket chain in terms of number of supermarket retail stores is the Dairy Farm Group with 99 supermarket stores, comprising of 37 Cold Storage supermarket retail stores, 50 Shop & Save Stores, 6 premier Market Place stores and 6 Giant Hyper-mart stores. A large percentage of products on their shelves comprised mostly western-type products procured from E.U., Australia, New Zealand and the United States. Eight of their outlets are located in upper middle-income residential areas and customers to these outlets are principally expatriates and upper middle-income residents. In addition, the Dairy Farm Group operates the 7-Eleven Convenience Chain of 295 stores and 125 Guardian Pharmacy outlets

The NTUC FairPrice supermarket chain which is the second largest supermarket chain in terms of number of supermarket outlets, has 80 FairPrice supermarkets and one FairPrice Hyper mart. In addition, the group has 116 Cheers Convenience Stores and 21 Fairprice Convenience Stores some of which are located in Esso-Mobil Stations. NTUC Fairprice's target audience is principally the middle and lower income groups. Competitive pricing is one of the main factors determining whether a new product should be procured for the FairPrice stores. The retail distribution reach of the FairPrice stores is very extensive as they are located in almost every large residential population concentration. Importers who require their products to be distributed island-wide and with the focus on the mass market prefer to work with NTUC FairPrice.

NTUC FairPrice supermarket chain procures most of their food products from local importers. However, in recent years, NTUC Fairprice has embarked on extensive house branding of basic essentials like rice, bread, cooking oil, toilet paper, box tissue, sugar, dish washing liquid and canned fruit.

Besides Cold Storage and NTUC FairPrice supermarkets, there are several independently managed supermarkets like Isetan, Meidi-Ya, Mustafa's, Prime Supermarket, and Sheng Siong. The most recently established supermarket chain, Sheng Siong, which has 22 small and medium sized stores and Prime Supermarket which has 17 outlets are family owned business entities which originated from small single grocery outlets to their current sizes today. Both Sheng Siong and Prime are very price competitive as they procure most of their products from China and other neighboring low cost Asian supplier countries. Customers of both supermarket chains come mostly from the lower middle-income groups. The rest of the above mentioned supermarkets are independently operated supermarket stores with only one outlet each. Isetan and Meidi-Ya target principally the upper middle-income groups and the Japanese community in Singapore.

Outside the supermarket category, there are more than 23,000 mini-marts, convenience stores and traditional provision shops located in all residential housing estates all over the island. As these shops tend to be very small and, in most cases, no more than 600 square feet in retailing area, products tend to be limited to the very basic household items and to a small number of confectionery items and snack foods. Few of the shops in this category do not sell frozen meats and prepared meals nor is fresh produce retailed in this category.

Food Service Sector

It is estimated that Singaporeans spend about US\$3.3 billion annually eating out. Restaurants as a group account for 38 percent, while fast food outlets account for 12 percent of the total revenue in the food & beverage services industry. Food caterers take up a 13 percent share of the food and beverage industry. Since eating out in the numerous cooked food stalls located round every corner of major housing residential estates is relatively inexpensive, most Singaporeans eat out at least once a day. As most households have working wives, Singapore families find it more convenient and, in most cases, less expensive to eat out. It is not uncommon each evening to see families walk to the nearest neighborhood cooked-food stall to have their dinner.

According to government statistics, there are more than 5,500 cooked food stalls in the whole island. Besides these cooked-food stalls, fast food chains like McDonalds, Kentucky Fried Chicken, Burger King, Pizza Hut are located in large shopping complexes all over the island.

The food service industry continued to show improvement in 2008. Restaurant sales reported an increase of 10 percent for 2008 due to the greater influx of tourists and business arrivals to the republic nation. It is reported that the food service industry is reverting back to better quality but higher priced foods as customers resume their original preference for quality food ingredients.

Food service companies in Singapore are widening their distribution network to other countries in the Asian region to achieve economies of scale in operation. As individual restaurant requirements are small, Singapore food service companies provide an alternative supply chain to customers who have small but frequent procurement needs for U.S. or western-type products.

It is thus not uncommon to see a number of well-known U.S. brands being transshipped or distributed from Singapore. Traders here are able to provide credit terms to their counterparts in the region or to carry out specific handling, packaging or documentation requirements. Generally products which have a longer shelf life and which do not need

refrigeration are more easily transshipped.

Meat and poultry products, which require halal certification for Muslim consumers in the region, are generally shipped direct to the country of destination. Again, some Singapore traders may be involved in the ordering process as well as in the provision of short-term credit to the local importer in the destination country.

Food Processing Sector

Singapore's food processing sector is very limited and the major food manufacturers are those in beer, non-alcoholic beverages, snack foods, fish processing and ethnic food activities. As Singapore has no crop or livestock production, practically all food ingredients are imported from a wide range of countries worldwide.

According to the Singapore government statistics, there are more than 300 companies making up Singapore's food processing sector most of which are small-scale operations with output barely sufficient for the local market. These firms manufacture food products ranging from beverages and snack foods to dairy and confectionery goods. With the exception of the beer and soft drinks plants, the scale of production tends to be small and the number of employees for each food-manufacturing establishment tends to be less than 100 each.

The total output of the locally manufactured food, beverage and tobacco sector was valued at around US\$2.23 billion in 2007 (the latest available official figure), out of which it was estimated that about 45 percent was re-exported. Products, which are exported, include beer, soft drinks, edible oils, chocolates, processed seafood, milk powder, condensed milk, sauces and spices.

The source of competition varies depending on the nature of the product manufactured. For example, Australia supplies most of the milk products and dairy ingredients while China supplies most of the corn and soybean products. Malaysia supplied nearly 20 percent of the food ingredient market and is the major supplier of live animals for slaughter, edible oils, tropical fruit and vegetables. The U.S. has significant market share in juices, juice concentrates, frozen poultry parts, fresh temperate fruit, nuts, flavorings, spices and leaf tobacco.

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

Product	2008	2006-	Key	Market
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Category	Total Imports US\$Million	2008 Ave Annual Growth	Constraints over Market Development	Attractiveness for USA
Snack Foods	254	18	Intense Competition from lower cost suppliers	Availability of wide variety of flavors. Quality of U.S. products and packaging
Dairy Products	817	35	Lower priced dairy products from Australia and New Zealand	Quality and instant brand recognition of leading U.S. brands
Fresh Fruit	318	13	Intense competition from China, South Africa, Australia and New Zealand	U.S. has reputation of being a supplier of quality fresh fruit
Tree Nuts	76	20	Competition from low priced peanuts from China and pistachios from Iran	Quality of products from U.S. are consistently maintained
Processed Fruit & Vegetables	249	16	Strong competition from Australia, New Zealand and EU	U.S. has a reputation for quality products and instant brand recognition
Pet Foods	21	16	The market for pet foods is keenly contested. Australian brands are well established and have a close geographical advantage	U.S. brands are well established and there is a natural reluctance to carry out brand switching for marginal price differences.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

U.S. Department of Agriculture
U.S. Embassy
27 Napier Road
Singapore 258508
Fax: (65) 6476-9517
Tel: (65) 6476-9120
[Email: agsingapore@usda.gov](mailto:agsingapore@usda.gov)

Agri-Food & Veterinary Authority of Singapore
Ministry of National Development
5 Maxwell Road
#03-00 Tower Block
MND Complex
Singapore 069110
Tel: (65) 6222-1211
Fax: (65) 6220-6068
Website: www.ava.gov.sg

International Enterprise Singapore
230 Victoria Street, Level 10
Bugis Junction Office Tower
Singapore 188024
Tel: (65) 6337-6628
Fax: (65) 6337-6898
Website: www.iesingapore.com

Singapore Business Federation
10 Hoe Chiang Road
#22-01 Keppel Tower
Singapore 089315
Tel: (65) 6827-6828
Fax: (65) 6827-6807
Website: www.sbf.org.sg
Email: info@sbfb.org.sg

American Chamber of Commerce in Singapore
1, Scotts Road
#23-04, Shaw Centre

Singapore 228208
Tel: (65) 6235-0077
Fax:(65) 6732-5917
Website: www.amcham.org.sg

Singapore Retailers Association
371 Beach Road
#02-04/05 Keypoint
Singapore 199597
Tel: (65) 6295-2622
Fax: (65) 6295-2722
Email: info@sra.org.sg
Website: www.retail.org.sg

Appendix I: Statistics: Please see attachment.

END OF REPORT